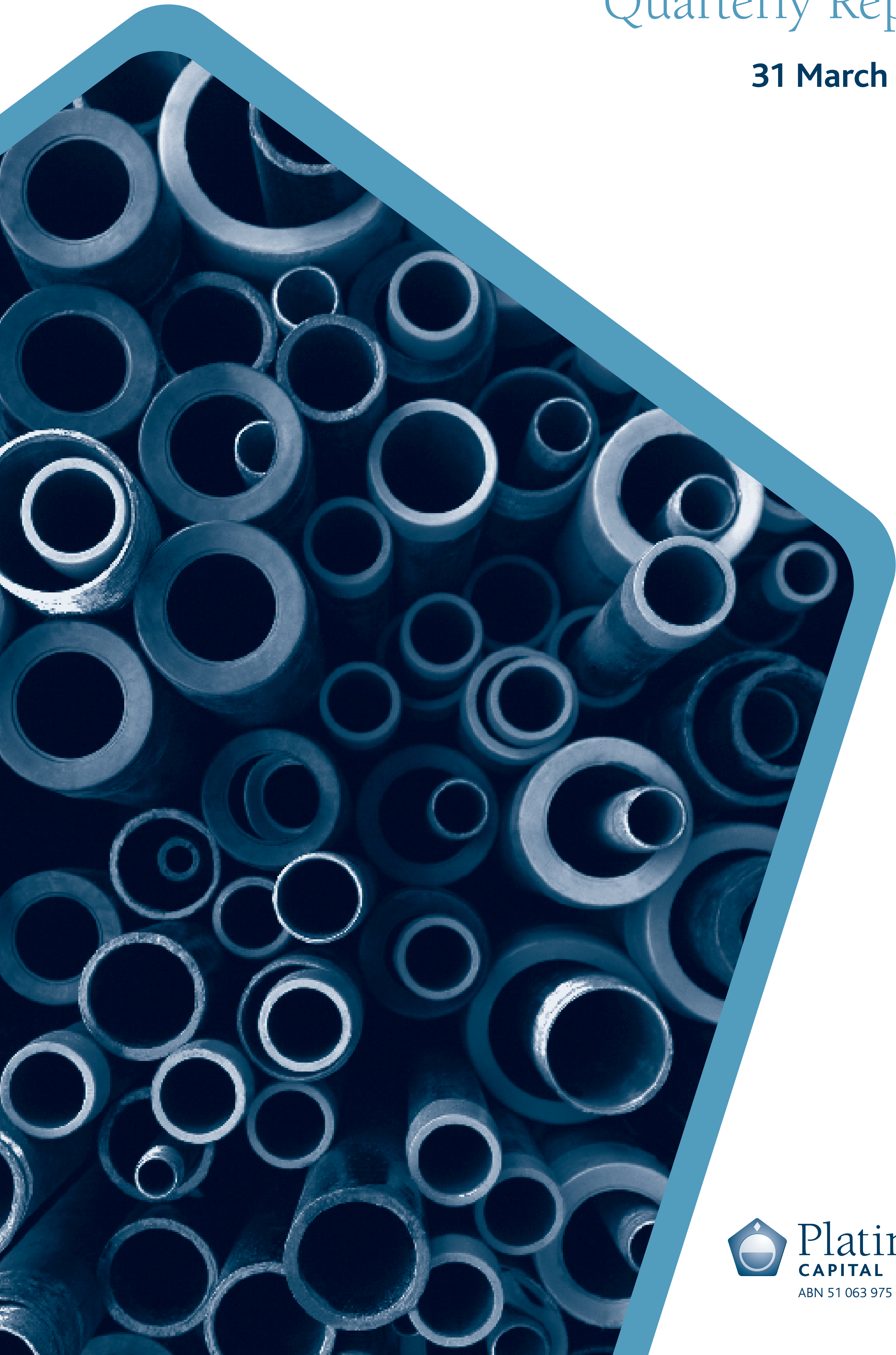
Platinum Capital® Limited Quarterly Report

31 March 2009



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

The Company has been doing well in these weak and unstable markets. This is attributable to the geographic diversity of the portfolio, the stock selection, which included some exposure to gold shares, and to short sales. Those holdings that were badly treated last quarter, such as auto-related entities, performed the best in the recent rally and we are using this volatility to make small changes to exposure without significantly altering the overall balance.

For the quarter, the Company returned -2.5% (pre-tax), for the last six months -1.1% and for the year -4.1%. The corresponding numbers for the MSCI All Country World Index were respectively, -10.4%, -21.3% and -25.2%.

Some investors have expressed concern that we might slip back to the pack. Clearly this is possible but our view is that we have been relatively well prepared for this test and it is not as though we are complacently sitting back reviewing the wreckage. The team has been actively scouring the market for companies whose prices overly discount their prospects, diminished though these may be compared to earlier times.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
INFORMATION TECHNOLOGY	3%	-14%
MATERIALS	-1%	-36%
ENERGY	-6%	-22%
CONSUMER DISCRETIONARY	-7%	-23%
HEALTH CARE	-10%	2%
CONSUMER STAPLES	-11%	-8%
TELECOMMUNICATIONS	-11%	-13%
UTILITIES	-16%	-17%
INDUSTRIALS	-16%	-35%
FINANCIALS	-20%	-45%

* Morgan Stanley Capital International
Source: MSCI

The following Platinum Net Asset Value figures (cps) are after provision for tax on both realised and unrealised income and gains.

NET ASSET VALUE (CPS)

31 JANUARY 2009	124.75
28 FEBRUARY 2009	117.50
31 MARCH 2009	119.42

Source: Platinum

CURRENCIES

The significant changes we made over the quarter were to increase the hedge into the A$ to close to 30% and to more than halve the holdings of the Japanese yen to 9%. This leaves the currency positions largely in line with the geographic disposition of our assets with the exception of Japan. You may recall that we were very aggressive owners of the yen some months back but our conviction has subsequently diminished driven by the deterioration in some key measures such as the savings rate and trade account.

The A$ continues to attract foreign interest as the appetite for risk has risen. We cannot see reason to alter our view that it should realistically trade in the mid-70s versus the US$. The latter has weakened slightly versus the Asian block and we are keeping a close watch on potential changes in sentiment.

SHORTING

The shorts are now almost exclusively against specific companies as opposed to indices. They are concentrated within those sectors generally regarded as bullet proof such as education, packaged consumer goods, transport services and some retailers that are well on their way back to pre-crash levels.

CHANGES TO THE PORTFOLIO

Weak markets gave us the opportunity to buy some new holdings and to add to existing positions at knock-down prices. We switched among our gold miners, favouring Anglogold Ashanti over Barrick Gold Corp, and chose to reduce further the positions in Bombardier and eBay, companies which share the feature of having some wonderful parts whose contribution is being nullified by their weaker businesses. In the case of Bombardier our faith in rail engineering is proving correct yet the collapse of private aircraft sales is dragging down the group's results. At eBay the problems stem from difficulties in repositioning itself as an on-line retailer while Skype and PayPal are thriving.

As regards new holdings, AES and Veolia Environnement are each being penalised for their high levels of debt. AES is an independent power producer operating with 43 Gw of capacity in 29 countries. Often working in tandem with multilateral agencies and with non-recourse fixed rate long-term funding we are attracted by the fact that the share price is approximately half replacement value.

Veolia, which we last purchased at the peak of the tech bubble and then sold too early on its way to quadrupling on a leveraged spree, specialises in water treatment, waste disposal and community transport. Veolia holds contracts with public authorities that are

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	MAR 09	DEC 08
ASIA AND OTHER	25%	23%
JAPAN	24%	22%
EUROPE	21%	23%
NORTH AMERICA	21%	21%
CASH	9%	11%
SHORTS	19%	19%

Source: Platinum

PLATINUM CAPITAL LIMITED – TOP 20 STOCKS

STOCK	INDUSTRY	MAR 09
MITSUBISHI UFJ FINANCIAL GROUP	FINANCIAL	3.2%
MICROSOFT CORP	TECHNOLOGY	3.1%
CISCO SYSTEMS	TECHNOLOGY	2.7%
SIEMENS	ELECTRICAL	2.4%
DENSO CORP	AUTO	2.3%
ANGLOGOLD ASHANTI	GOLD	2.1%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.0%
SAMSUNG ELECTRONICS	ELECTRICAL	1.9%
HENKEL KGAA	CONSUMER	1.9%
NEWMONT MINING CORP	MINING	1.7%
HENDERSON LAND DEV	PROPERTY	1.7%
SANOFI-AVENTIS	HEALTH CARE	1.7%
MERCK & CO	HEALTH CARE	1.6%
SUMITOMO REAL ESTATE SALES CO	PROPERTY	1.6%
OBAYASHI CORP	CONSTRUCTION	1.5%
JOHNSON & JOHNSON	HEALTH CARE	1.5%
MICRON TECHNOLOGY	TECHNOLOGY	1.4%
PPR	RETAIL	1.4%
BANGKOK BANK	FINANCIAL	1.4%
BMW	AUTO	1.3%

Source: Platinum

decades long and protected by very specific barriers to entry. The price is close to its 2003 level and the dividend yield is 7%.

China Life is a long-term play on Chinese prosperity. The company is presently being penalised over concerns about low interest rates adversely affecting the profitability of its new strategies but we believe this is transient and prefer to emphasise the company's dominance of the mainland market and above average premium growth in the mid-teens.

Kerry Properties, best known for its association with the Shangri La hotel chain, has some of the most attractive rent-earning, dominant sites in the principal cities of China. Selling at half book value, with low gearing of around 35%, it clearly has the potential to be re-rated.

Canon, one of the world's great corporations, simply became too cheap to ignore when it was trading at book value.

COMMENTARY

It is tempting to believe that the "authorities" are getting on top of the problems and that we may reflect on this period in the future as some sort of transient mishap. Given that the excitement of the potential of equities is still fresh in investors' minds, there is a danger that emotion could be placed above logic. The best protection from this is to keep a check list of the root causes of the current economic contraction:

1. The imbalances between the large consuming nations and the savings nations must still be addressed before we can achieve a sustainable world economic order. We are seeing some changes here with the US savings rate climbing towards 5% and a reciprocal deterioration in Eastern trade surpluses. However, a fundamental solution requires a significant shift in the profligates towards more investment and self-funding and a change in the economic and social structures of the high savers to encourage greater and sustained domestic demand, perhaps encouraged by a broader social security net.
2. Western banks are deficient in equity and even though government intervention is designed to free-up their balance sheets, their willingness and ability to lend will be closely linked to the rehabilitation of their equity reserves. Spreads have improved somewhat but we are yet to suffer the bad debts from the second phase of this economic contraction.
3. Profits were at peak levels in 2007/08 worldwide and way above trend. In the initial deflationary phase of debt retrenchment, pricing power will be scant and only if current resuscitation measures succeed will this change. Importantly, not all areas will recover pricing power due to increased regulation, protectionist tendencies and, perhaps, more restricted global trade.
4. There is simply too much debt in the system. The measures now being taken could worsen the position long-term by dislocating the benefits of market pricing and are already causing distortions. Here one can cite obstruction to clearance of industrial capacity and bond pricing imperfections caused by government guarantees.

Hardly a day goes by without some pronouncement from on high regarding the 'world financial crises' and the announcement of action on deficit spending, industry support and, in particular, massive injections of reserves into the global settlements system via the International Monetary Fund (IMF) and into individual banking systems via direct purchase of government bonds. With short-term interest rates in most countries now extraordinarily low, the willingness to take risk has shifted which seems to be contributing to the global market rally.

The magnitude of these measures is almost beyond comprehension. In the US, for example, we find that the alphabet of proposals (TALF, TARP, PPIP) amount to some US$2.75 trillion. Should private investors take the opportunity to enter into the latest scheme and help recycle funding, with the aid of the Treasury and the Federal Deposit Insurance Company (FDIC), base money in the system would explode to US$3 to $4 trillion. Until recently many believed that the system was adequately stocked with base money of US$800 billion although this had been geared up over 30 times to create interest bearing liabilities for the US of over US$30 trillion. The losses to date of some US$1 trillion have eliminated some of these claims and with it, considerable equity, creating a negative wealth effect which is hampering the ability of banks to function properly[1].

The so-called quantitative easing, by creating bank reserves to supercharge the system, is an experiment. In Japan it failed to rejuvenate an economy which had the advantage of being surrounded by a sea of growth in other countries through much of the 1990s. The present injections are being counteracted by a host of physical and psychological reactions such as massive de-stocking and job losses, plummeting investment, a greater desire to save and banks that have tightened their controls commensurate with their recent losses. Contrary to impressions given by the popular press, they have continued to lend more money, as did the German and Japanese banks after their shocks in the early 1990s, but the evaporation of wealth (equity), and the virtual closure of the securitisation markets, has meant there is still too little lending to maintain the existing balloon of debt. Via quantitative easing, effectively swelling the money stock three fold, the US is trying to compensate for the refusal of investors to support a debt pool that had grown too large for the host economy.

The recent Japanese experience, however, is that once a government is saddled with a grossly excessive debt burden it becomes reliant on further borrowings and low interest rates to refinance itself and to keep interest payments at a supportable level within the context of the limit of national taxable capacity. Each time the Japanese government tried to normalise the balance of the economy it brought about a contraction of growth.

Here at Platinum, we are beginning to favour companies that will be reasonably well-placed if ultimately inflation threatens. We are also tending to overweight our investment in those countries which have low government debt and high savings which we believe have greater scope for growth than those labouring under the burden of rising national debt.

A country that does not fit this description and yet will in all probability continue to grow is India. Its Central and State government funding is a mess with deficits around 6% of national GDP. Company balance sheets have

[1] Interestingly, US banks are themselves reasonably well funded by deposits whereas their UK and some continental counterparts rely more on wholesale funding through the money markets. Government measures during the last major disaster of the 1930s partly account for this in that the Federal agency, Fannie Mae (FNM), was established in 1938 to facilitate affordable lending to home owners. FNM's ambitions expanded and eventually it was leveraging up its balance sheet, on the basis of an implicit government guarantee, to own and also to securitise mortgage backed paper. Others emulated this process as a way to fund other consumer receivables such as auto loans and credit card receivables whereas the Europeans tended to keep such loans on their balance sheets.

deteriorated as a consequence of what we describe as "global conquest". In the boom it seemed to become almost mandatory to acquire some foreign trophy. Bank credit grew by about 25% a year, fuelling a classic chase into property and house building. Fortunately most banks, with the exception of ICICI, were too busy at home to get caught with nasty paper from overseas.

During our visit to India in March most of the banks seemed unduly complacent about the quality of their books. On the other hand, there has been a profound rebirth of national pride and a general belief that the country can and should grow faster than the 4% of the past. With a high savings rate of 30% of GDP and relatively low external exposure, all that is missing is an upward shift in the tax base. Criticism of corruption at the centre seemed more prevalent than on earlier visits but the prospect of higher income tax collection seems about as remote as the nation abstaining from chapattis.

We met with a broad variety of companies and felt that share prices have come back to levels that are bordering on attractive. A near term danger rests on the outcome of the May 16 general election. Of concern is the support being given to Mayawati, the Chief Minister of India's most populous state, Uttar Pradesh. Although Mayawati has a sad reputation, she may become a powerful broker in a much more fractured parliament. With the country already critical of the remote, venal and vacillatory nature of Delhi, the prospect of even more dithering in the leadership is disturbing.

OUTLOOK

We cannot know whether markets have established a bottom.

The nature of the world's current problem is highly complex and the outcome will depend heavily on how individuals respond to uncertainty. We are clear that there was a great deal of fear factored into prices as we entered March, and this led us to cut our short exposure and to position most of our shorting in companies that are being regarded as bullet-proof. Some of the latter have actually sold-off into the recent rally as investors seemed to use them as a source of funds to play more growth sensitive options.

Simply by gauging the number of disbelievers our instincts are that the rally will proceed higher. When we look at the opportunities available we are encouraged by the holdings we have and see a likelihood of making money for investors. We can now buy many companies at or below their book value which is most rare. It implies that there is no intrinsic value in the work of decades of putting together the whole neural system that comprises a successful company.

Longer term we think markets will continue to be volatile so that flexibility of mind and constant watchfulness will be at a premium.

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